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C O N F I D E N T I A L SECTION 01 OF 03 ISLAMABAD 004817

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SUBJECT: PAKISTAN: RETHINKING ASSISTANCE

Classified By: Anne W. Patterson, Reasons 1.4 (b), (d)

11. (C) SUMMARY. President Musharraf has now set a date for elections and indicated he will resign from the Army. This is an opportunity to re-examine our assistance relationship and consider changes that will enable USG funding to more directly promote a more robust counter-terrorism (CT) and counter-insurgency (COIN) effort in Pakistan and provide enhanced people-to-people assistance. We recommend directing and earmarking funds where possible, and, in some cases, refocusing the assistance. Pakistani cooperation remains critical in maintaining the logistical lifeline to our troops in Afghanistan and in prosecuting the war on terror, but the USG needs tighter control mechanisms to regulate assistance funds to achieve desired results. Post recommends that we:

--Continue Coalition Support Funds (CSF) but rather than depositing funds in the Pakistani treasury, disburse earmarked monies from a trust fund to provide specific anti-terrorism and counter-insurgency training and equipment for the armed forces and the Frontier Corps, as well as fund through reimbursement Pakistan security forces for expenses legitimately emanating from CT/COIN operations.

--Keep Economic Support Funds (ESF) but rather than providing a budgetary transfer to the Pakistani treasury, convert the funds to project assistance targeted principally for education that offsets the influence of madrassas and improves the quality of life for at-risk populations.

--Retain current Fulbright, IMET, USAID Development Assistance, Child Survival and Health programs, emergency relief and reconstruction aid, INL anti-narcotics programs, and the security/development assistance program for the Federally Administered Tribal Areas (FATA). END SUMMARY.

STATE OF EMERGENCY: OPPORTUNITY TO REPAIR ASSISTANCE PROGRAM

12. (C) President Musharraf has now set a date for delayed elections and indicated he will resign as Chief of Army Staff. But his November 3 decision to replace the judiciary, suspend fundamental rights under Pakistan's constitution and arrest a wide range of civilian opposition figures represents a significant setback for Pakistan's democratic transition.

13. (C) This gives us an overdue, but limited, window of opportunity to more effectively direct USG assistance to increase the control, transparency and focus of our aid toward USG counter-terrorism, counter-insurgency and democratization goals. This will shift our relationship from

a tactical one that supports the sitting Pakistani government to one based on a long-term commitment focused on directly promoting the security and well-being of the people and armed forces of Pakistan.

¶4. (C) At the same time, we must retain Pakistani support for maintaining the logistical lifeline for our troops in Afghanistan, our ability to prosecute jointly the War on Terror, and our long-term strategic relationship. In such an environment, we recommend a judicious approach that reorients rather than eliminates assistance programs, changing delivery mechanisms to direct funds to specific projects and areas rather than direct budgetary transfers to the GOP.

RECOMMENDATION: PROJECTIZE BUDGET TRANSFERS

¶5. (C) The Pakistan government currently receives approximately \$1.2 billion annually in direct budgetary transfers from the U.S. - \$860 million in Coalition Support Fund (CSF) reimbursements and \$200 million in Economic Support Fund (ESF) budgetary assistance. CSF represents a commitment made to facilitate Pakistani cooperation in the War on Terror. CSF is funded through DOD and has few effective regulatory controls. Post does not/not propose eliminating either program.

¶6. (C) At the same time, the current delivery methodology for both programs is long overdue for an adjustment. Rather than direct budgetary transfers to the GOP, both programs should be reprogrammed to project-oriented assistance. This budgetary support is equivalent to five percent of Pakistan,s 2006-2007 budget. However, if these funds are projectized, the inflows will still count as foreign

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assistance, rather than budgetary transfers in Pakistan,s external account.

RECOMMENDATION: CONTINUE CSF BUT NOT VIA "BLANK CHECK"

¶7. (C) The USG currently provides approximately \$1 billion annually in CSF funds to reimburse Pakistan for costs of the war on terror. Post scrutinizes Pakistani requests for reimbursement and monitors the readiness of the Pakistani armed forces. We estimate that currently only 50-60 percent of CSF funds actually reach the military, and less than half of that may reach that segment of the armed forces bearing the burden of the claimed expense. For example, we provided approximately \$55 million in CSF for helicopter operations from July 06 - February 07; but estimate that only \$20 million went to operate the entire Pakistan Army helicopter force for all of 2007. 20 percent or less of the Army,s Cobra fleet (a critical factor in engaging militants in the tribal areas along the Afghan border) is currently operational.

¶8. (C) We must maintain CSF funding to encourage continued Pakistani engagement in the war on terror. But CSF should be directed to ensure funds are aimed at U.S.-designated needs in the fight against militant extremists. We recommend establishment of a CSF Trust Fund, with specific amounts allocated to such areas as logistics, equipment, training, etc. CSF money would flow into this U.S.-controlled account and dispersal would only be made with USG concurrence. This would support a more focused and robust counter-terrorism effort in Pakistan.

¶9. (C) We are fully aware of the potential legal and congressional challenges these proposals present but understand that the Congress is already considering some earmarks for CSF. We suggest the following sample of possible earmarks to:

--Train and equip the Frontier Corps to include communications surveillance equipment, combat medical care, body armor and light weapons;

--Train and equip the Army,s Special Services Group (special forces) to better conduct counter-terrorism and counter-insurgency operations;
--Train and equip the Army,s helicopter forces to better conduct day/night air assaults and maintain their helicopter fleet;
--Train and equip the Army to improve its tactical surveillance and SIGINT capabilities; and
--Train the Air Force to develop safe and accurate close air support capabilities in support of Army operations.

RECOMMENDATION: CONVERT ESF FUNDS TO PROJECT ASSISTANCE

¶10. (C) President Bush committed to five years of ESF budgetary support for increased education and health expenditures. We should end budgetary transfers to the Pakistan government. For the two final years of this program, we should convert the annual \$200 million in ESF budgetary support to project assistance and notify the GOP of this immediately. There are insufficient conditions attached to ESF funding, and the GOP has devoted only 1.8% of its budget for education and 0.6% for health.

ESF: FOCUS ON EDUCATION

¶11. (C) We should divert these funds to a major expansion of our education programs to projects implemented by domestic and international civil society organizations in the public education sector. In addition, we could launch support for private schools being run by moderate religious groups (e.g. Bareilvi) to counter expanding Deobandi/Wahhabi influence in Pakistan that is being funded by Saudi Arabia and other Gulf states. In addition, funds could be used to support vocational training and adult literacy programs that would help improve the conditions of a significant portion of the population who are disenfranchised but currently are opposed to extremism.

ESF: IMPROVE QUALITY OF LIFE FOR AT-RISK COMMUNITIES

¶12. (C) Funds could also be used for agricultural development and microfinance; the agricultural sector employs some

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two-thirds of the Pakistani workforce. Easing food inflation is the single best way to garner support among non-elite Pakistanis. Since Pakistan does not qualify for PL-480 Title II, this could be done through the McGovern-Dole International Food for Education (FFE) school lunch program. This program is conducted by private voluntary organizations using U.S. commodities. It could also be used to provide take-home rations for families based on school attendance and food for teachers and school construction workers. We understand that Pakistan is already considered a priority country for this program.

POSSIBLE SHIFT OF FMF TO ESF

¶13. (C) Embassy notes that Section 689 of the DOS Foreign Operations and Related Programs Appropriations Act governing Pakistan,s \$300 million FMF allotment. Through a certification to the Appropriations Committee finding that the Government of Pakistan is not implementing democratic reforms, the Secretary may transfer some or all of these funds to ESF and use them for basic education, health, micro-enterprise development, and democracy programs in Pakistan.

PEOPLE TO PEOPLE EXCHANGES: OUR BEST INVESTMENT

¶14. (C) Post does not/not recommend any suspension or changes to people-to-people exchange programs, including Fulbright and IMET. Both are vital to establish a long-term strategic working relationship with the government and people of Pakistan. The \$31.5 Fulbright Program funds exchanges for 350 students and scholars each year. Our modest \$2 million

International Military Education and Training (IMET) program allows us to offer training to some 500 Pakistanis officers in the United States each year.

¶15. (C) The lack of outside perspective provided by IMET was particularly evident during this recent political crisis. Inter-Services Intelligence Director General Nadeem Taj, for example, lacked the global perspective that might have offset the parochial instinct to initiate extra-constitutional action. Taj, like many of his senior compatriots, was denied IMET training during the Pressler sanctions period -- in notable contrast to Vice Chief of Army Staff Kiyani and Chief of Staff Javaid, both IMET graduates who were far more sensitive to U.S. and international concerns.

MAINTAIN CURRENT HUMANITARIAN ASSISTANCE

¶16. (C) We recommend keeping the USAID Development Assistance, Child Survival and Health programs, and emergency relief and reconstruction funds (relating to the 2005 earthquake) unchanged. These programs already directly benefit the Pakistani people and do not directly impact on the GOP budget; they represent a long-term investment in a moderate Pakistan by demonstrating the U.S. unwavering commitment to the people of Pakistan, regardless of government actions.

¶17. (C) Our own interests strongly argue against any curtailment or reprogramming of funds dedicated to the Federally Administered Tribal Areas (FATA) and International Narcotics Control and Law Enforcement. These programs directly support critical border security, counter-terrorism and counter-narcotics goals. In addition, we have already ensured that the FATA support funds will be used for projects rather than provided to the Government of Pakistan as cash transfers.

ISOLATION NOT IN OUR U.S. STRATEGIC INTEREST

¶18. (C) Isolation of Pakistan is not in our strategic interest. These proposed changes in our foreign assistance programming are designed to increase control, transparency and focus of funding while ensuring the war on terror moves forward and that assistance benefits those at-risk communities in Pakistan from which extremists are drawn.
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